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**STANDING COMMITTEE ON FINANCE
(2002)**

(THIRTEENTH LOK SABHA)

**MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)**

THE INSURANCE (AMENDMENT) BILL, 2001

TWENTY SIXTH REPORT

Presented to Lok Sabha on 8 March, 2002
Laid in Rajya Sabha on 8 March, 2002

**LOK SABHA SECRETARIAT
NEW DELHI**

March, 2002/ Phalguna, 1923 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE - 2002

Shri. N. Janardhana Reddy – Chairman

MEMBERS

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2. Dr. Sanjay Paswan
3. Shri Ramsinh Rathwa
4. Shri Rattan Lal Kataria
5. Shri Kirit Somaiya
6. Shri Kharabela Swain
7. Shri Raj Narain Passi
8. Shri S. Jaipal Reddy
9. Shri Ramesh Chennithala
10. Shri Kamal Nath
11. Shri N.D.Tiwari
12. Shri Pravin Rashtrapal
13. Shri Sudarsana E.M. Natchiappan
14. Shri Rupchand Pal
15. Shri Varkala Radhakrishnan
16. Dr. Daggubati Ramanaidu
17. Shri Chada Suresh Reddy
18. Shri Prakash Paranjpe
19. Shri Raashid Alvi
20. Shri T.M.Selvaganapathi
21. Shri Trilochan Kanungo
22. Shri Sudip Bandyopadhyay
23. Shri Sharad Pawar
24. Shri Abdul Rashid Shaheen
25. Capt. Jai Narain Prasad Nishad
26. Shri Prabodh Panda
27. Shri Amir Alam Khan
28. Shri M.V.V.S. Murthy**
29. Vacant
30. Vacant

RAJYA SABHA

31. Dr. Manmohan Singh
32. Shri Krishna Kumar Birla
33. Shri Suresh A. Keshwani
34. Shri N.K. P. Salve
35. Shri S.S. Ahluwalia
36. Shri Dina Nath Mishra *
37. Shri Parmeshwar Kumar Agarwalla
38. Dr. Biplab Dasgupta
39. Shri P. Prabhakar Reddy
40. Prof. M. Sankaralingam
41. Shri Amar Singh
42. Shri Prem Chand Gupta
43. Shri Sanjay Nirupam
44. Shri Daya Nand Sahay
45. Shri Palden Tsering Gyamtso

* Nominated vice Sh. Narendra Mohan w.e.f. 4.1.2002.

** Nominated w.e.f. 18.1.2002

SECRETARIAT

- | | | | |
|----|------------------------|---|----------------------------|
| 1. | Shri P.D.T. Achary | - | Additional Secretary |
| 2. | Dr. (Smt.) P.K. Sandhu | - | Joint Secretary |
| 3. | Shri R.K. Jain | - | Deputy Secretary |
| 4. | Shri S.B. Arora | - | Under Secretary |
| 5. | Shri L.V. Ramana | - | Senior Executive Assistant |

INTRODUCTION

1. I, the Chairman of Standing Committee on Finance - 2002 having been authorised by the Committee to submit the Report on their behalf present this Twenty Sixth Report on the Insurance (Amendment) Bill, 2001.

2. The Insurance (Amendment) Bill, 2001 was introduced in Lok Sabha on 16 August, 2001. The Bill was referred to the Committee on 27 August, 2001 for examination and report thereon, by the Hon'ble Speaker, Lok Sabha, under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. The Standing Committee on Finance – 2001 at their sitting held on 12 November, 2001 heard the views of representatives of the (i) Confederation of Indian Industry (CII), (ii) PHD Chamber of Commerce and Industry (PHDCCI), (iii) Life Insurance Agents Federation India, Vishakapatnam, (iv) The National Federation of Insurance Field Workers of India, and (v) All India Insurance Employees' Association on the provisions contained in the Bill. The National Federation of Insurance Field Workers of India, All India Insurance Employees' Association and PHDCCI have also submitted written memoranda on the provisions of the Bill.

4. At their sitting held on 25 January, 2002 the Standing Committee on Finance – 2002 took the evidence of representatives of Life Insurance Corporation of India (LIC) on the provisions contained in the Bill. The Committee also took the oral evidence of the representatives of the General Insurance Corporation of India (GIC), the Insurance Regulatory and Development Authority (IRDA) and the Ministry of Finance (Deptt. of Economic Affairs) on the provisions contained in the Insurance (Amendment) Bill, 2001 on 4 February, 2002.

5. The Committee considered and adopted the draft report at their sitting held on 26 February, 2002.

6. The Committee wish to express their thanks to the representatives of (i) Confederation of Indian Industry (CII), (ii) PHD Chamber of Commerce and Industry (PHDCCI), (iii) Life Insurance Agents Federation of India, Vishakapatnam, (iv) The National Federation of Insurance Field Workers of India, (v) All India Insurance Employees' Association, (vi) LIC, (vii) Insurance Regulatory and Development Authority (IRDA) and (viii) Ministry of Finance (Deptt. of Economic Affairs) for the co-operation extended in placing before them their considered views and perceptions on the subject and for furnishing written notes and information that the Committee had desired in connection with the examination of the Bill.

7. For facility of reference, recommendations/observations of the Committee have been printed in thick type.

NEW DELHI;
5 March, 2002
14 Phalgun, 1923 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on Finance.

REPORT

Background

In order to provide better insurance coverage to our citizens and also to augment the flow of long-term resources for financing infrastructure, in the Budget Speech, 1998, the policy of the Government was announced to open up the insurance sector and also to establish a Statutory Regulatory Authority. Accordingly, the Insurance Regulatory and Development Authority Act, 1999 was passed by Parliament in December, 1999 by which the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalisation) Act, 1972 were amended to remove the exclusive privilege of nationalised insurance companies to transact life and general insurance business and allow for entry of private sector players in the insurance sector. It also provided for the setting up of a statutory regulatory authority to regulate, promote and ensure orderly growth of the insurance industry.

2. The Insurance Regulatory and Development Authority (IRDA) which came into existence on 19 April, 2000 made regulations in all major areas of operations in the insurance industry and matters connected therewith. Certificates of Registration have been issued to twelve new private companies and some of them have already commenced insurance business. The Government with a view to promote greater penetration of insurance and enhance insurance coverage in rural areas have decided to allow the participation of Co-operatives in insurance sector. To facilitate the said objective and for smooth functioning of the insurance sector, the Govt. have proposed to amend the Insurance Act 1938 through the Insurance (Amendment) Bill, 2001. The Bill was introduced in Lok Sabha on 16 August, 2001 and has been referred to the Standing Committee on Finance for examination and report. The Bill inter-alia contains provisions relating to payment of commission and fee for insurance intermediaries, allowing flexibility in the eligibility qualifications for corporate agents, allowing a more flexible mode of payment of premium through credit cards, smart cards, internet, etc., to be specified by the regulations to be made by the Authority, change in the allocation of surplus of life insurance business and consequential amendments.

3. The Committee, after going through the memoranda of Business Chambers and Insurance Employees' Associations, took oral evidence of the representatives of the Confederation of Indian Industry (CII), PHD Chambers of Commerce and Industry, Life Insurance Agents Federation of India, Vishakapatnam, National Federation of Insurance Field Workers of India, All India Insurance Employees' Association, Chennai and the General Insurance Employees' All India Association, Mumbai on 12 November, 2001, the representatives of LIC on 25 January, 2002 and the representatives of GIC, Ministry of Finance and IRDA on 4 February, 2002.

4. Through various memoranda which have been received from the Employees' Unions, Federations of Insurance Field Workers and representatives of Agents, a strong view has been expressed against the introduction of Insurance intermediary channels i.e. brokers, risk management consultants and provision for payment of their remuneration. Apprehensions were expressed that opening up of additional channels to distribute insurance products in the country would threaten the existence and survival of about seven and a half lakh Agents working in life and non-life insurance sectors. The Secretary, Department of Economic Affairs, Ministry of Finance while dispelling the fears elaborated as under :

“Most of the provisions in this Bill are really intended to implement the law that has already been passed by Parliament concerning the insurance sector. And certain consequential amendments have been considered necessary by our regulator which are necessary to ensure that whatever amendments have been passed by Parliament are actually implemented.

Sir, under the IRDA Act of 1999, the system of insurance intermediaries has already been passed by Parliament and enacted as a law and insurance intermediaries have been defined under the Act which includes insurance brokers, reinsurance brokers, insurance consultants, surveyors and loss assessors. So, this is a definition of the intermediary or insurance intermediary which is already part of the law.

Sir, when the IRDA Act, 1999 was passed by Parliament, the Section 42(D) was introduced as an amendment which lays down that insurance intermediaries including brokers can now operate in this sector. But there is also a Section 40 of this Act, which provides for regulations with regard to payment of commissions to agents. The purpose of this amendment is really to make a consequential amendment in Section 40 by inserting a

new Section 42(E) so that the purpose behind enactment of the earlier Section 42(D), of allowing the insurance intermediaries to operate in this sector, to provide a provision in the law so that the insurance companies can make payment of commissions and fees to those insurance intermediaries, who are already allowed to do business under the law passed in 1999. This is more so in the nature of a consequential amendment, which is needed to implement the provisions, contained in the IRDA Act of 1999. That is one of the main provisions in this proposed Insurance (Amendment) Bill.

Similarly, to make the operation of corporate agents more meaningful and implementable, our IRDA has suggested that the requirement for the qualifications which are prescribed for agents should cover only the Director or the partner or the member and other officers, who are actually in charge of insurance business should possess the required qualifications. So, there is some amendment on these lines, which has been suggested to Section 42 (1).”

5. The Chairman, LIC in his deposition before the Committee on the issue of opening up the channel of Insurance intermediaries has inter-alia observed as follows :

“In some countries it has been successful. For example, bank insurance is very successful in France. It is substantially successful in Netherlands, to some extent in U.K. and it is picking up in USA. But even now in Far-Eastern countries, particularly in the Pacific Rim region or the developing economies, mass business is underwritten through the tied agents only, including countries like Singapore, Malaysia or Indonesia. This is the data I have.

The third point he has mentioned is whether the tied agency and Development Officers are there in rural areas. Certainly they are spread in rural areas. In fact, there is hardly any big village or town where we do not have an agent. Naturally, the corporate agents and the brokers, at least initially, will concentrate in urban and the semi-urban areas.

.....With the opening of new channel of distribution, the influence of bringing in new business into rural areas, if at all, will be very marginal.

My submission would be like this. Unless one goes through the experience, it is very difficult to provide a value judgement. But certainly, the sense that my agents and Development Officers have given to me is that they will be at discomfort. And in case they are at discomfort, naturally it will influence their performance. That is my submission. Beyond that, unfortunately, I shall be providing a value judgement without getting into the experience of it. “

6. Supplementing on the same issue he stated that :

“Sir, I would submit like this. Our agents who had been meeting me and my two colleagues in this regard have been mentioning like this. If the corporate and broker channel is allowed, they will use their influence to book business. They would also, maybe, see that re-writing of policies takes place. They will also feel that creamy layer of business will go out of their arena. These are the three major fears that agents and development officers have been expressing. As I said, we may not be able to provide a value judgement because this has not been in place so far. But, certainly, this will cause quite a bit of discomfort among the rank and file of the agents.”

7. While replying to a query on the Malhotra Committee's recommendation on the System of Managing Agents the Chairman, IRDA has inter-alia deposed as under :

“Sir, I am obliged to the Hon'ble Members for the reference to the managing agent, and the reference to the recommendations of Malhotra Committee that the system of managing agent should be abolished. The question of managing agent which the hon'ble Members are having in mind is something which the Insurance Act had sanctified and called them Chief Agent, Principal Agent who are in charge of the agents procuring business. We had accepted the recommendation of the Malhotra Committee that is why in Clause 10 of the present Bill we are doing away with the concept of special agent, chief agent and principal agent. These are akin to the principle of managing agents which is the system used in foreign countries. But there is a veil of difference between an agent and a broker. An agent is an employee or the representative of the insurance company. He gets paid a commission by the insurance company. His terms and conditions of service are laid down by the insurance company. We have made it under our regulations. Somebody made a reference that the authority of the Government are out to destroy the system of agents in force. Let me, with all humility at my command, mention and assure this House and the Hon'ble Parliament that we have no intention of doing away with the system of agents. In fact, we on the basis of the assurance which was given to the Hon'ble Members on the Floors of the Houses have protected the existing agents. We have not prescribed any qualifications, any training, and any examinations to be passed by the existing agents on the day the regulations were brought into use in October 2000. They stand completely protected. We are not asking them to go through any examination. We are not asking them for any minimum qualifications. Only in respect of agents who have been recruited by the companies after Agents and Regulations, 2000 came into

force, we are looking for a minimum qualification, period of training and examination to be passed.

Sir, we along with the other countries which are looking for the financial agents who sell insurance and financial product, we feel that the agents must be aware of what they are doing. Hon'ble Members may be aware that even in western countries, there have been cases where insurance companies have been penalised for mis-selling and mis-statement in their selling practices. We do not want a similar practice to develop in this country. So, we feel that it is necessary and essential for somebody who wants to sell insurance to know what he does. So, that is the reason why we made this condition precedent in respect of only those persons who became agents subsequent to October 2000. We are insisting on this and with the co-operation of the Hon'ble House we will see to it that the selling of insurance products is considered to be a good avocation and not something which people should frown up. Let me also inform the House that today, in view of the importance that the insurance has been perceived to have, the type of agents and the quality of agents that are coming into this fold is very superior. We have graduates, MBAs, Chartered Accountants who want to become agents and some have already become agents. They are carrying on good business.

Sir, I may mention about corporate agents. The corporate agent is nothing new which we are introducing for the first time. Even under the existing 1938 Agents Regulation and 1972 Agents Regulations of the LIC Corporate Agents were existed. There were corporate agents in position but very few. When we introduced the IRDA Act, we continued that system. Only after 1999 with the introduction of financial institutions, banks, mostly in the public sector, they wanted to become corporate agents to advance the spread of insurance. That is the reason why we have come before this august assembly with rigorous training schedule that we had mentioned. The period of training, and minimum educational qualification that we had mentioned in these regulations which we moved in 1999 could be tempered to reflect that those who will be in charge of business of these companies would be required to go through the process of training and for the qualifications.

The corporate agents are not going to the ordinary life insurance people. An agent has to make contacts; he has to make many trips to convince a prospect about the necessity to get a cover and all those things. Even today in the westernised countries, including USA where there is a multiple system of selling and distribution channel available, 70 to 75 per cent business on the life side is procured by individual agents. These individual agents will not lose their value and their importance. Still a major portion of the business is procured by these individual agents. These corporate agents will only add some specialisation.

I can tell you what all the information that the system of individual agents will not vanish just because we are introducing brokers or we are thinking of enabling corporates to become agents.”

8. After having considered the Insurance (Amendment) Bill, 2001 clause-wise and having been convinced of the objectives of the Bill, the Committee approve the same for enactment by Parliament without any modification/amendment.

9. The Committee are however, of the opinion that though the existing network of Insurance Agents have expanded the Insurance business extensively in terms of volume and geographic spread within the country, yet there remains vast potential still to be tapped. They are of the view that in order to accelerate the growth and development of insurance sector in an even manner and benefit the insuring public with wide range of products at the competitive premium cost and speedy settlements, the institution of insurance intermediary should be introduced with specific safeguards and checks for a period of two years.

10. The Committee are also aware of the problems that the present life insurance agents will face after the introduction of intermediaries in the insurance sector. They, therefore, urge upon the Government to provide necessary safeguards to these agents.

NEW DELHI;
5 March, 2002
14 Phalguna, 1923 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on Finance.

NOTE OF DISSENT

Shri Varkala Radhakrishnan, MP

The process of de-linking 4 subsidiary companies of GIC from GIC before the parent legislation i.e. The General Insurance Business (Nationalisation) Act, 1972 was amended by the Parliament is beyond jurisdiction. A notification was issued by the Ministry to make GIC a reinsurer is without legislative sanction. It is for the Parliament to make an amendment to the parent act and not the executive. The delinking process is highly ultravires and devoid of merit. I understand that the Public Accounts Committee also disfavoured the proposal unanimously. I therefore strongly dissent the move to delink.

Regarding the introduction of brokerage system in the insurance sector is highly objectionable. It is very likely to result to throw away lakhs of insurance agents through out the country from employment. I strongly object the introduction of brokerage in the insurance sector.

Sd-

(VARKALA RADHAKRISHNAN)

Note of Dissent

Shri Rupchand Pal, MP
Shri Prabodh Panda, MP

On the Report In Respect of Bill No. – 24 General Insurance Business (Nationalisation) Amendment Bill, 2001 – Bill to delink GIC from its Subsidiaries and Bill No – 74 of 2001, Insurance (Amendment) Bill – 2001 to bring in the Broker system in the Insurance Industry.

The above Bills had been referred to the Standing Committee on Finance for examination. It has been mentioned in the Report that the representative of the IRDA, Ministry of Finance, Chambers of Commerce & Industry, Chairman LIC, representatives of the subsidiaries of GICI as also the trade unions in the Insurance Sector and Agents' Organizations were examined. It is placed on record that some of them submitted written memorandum and elaborated their viewpoints which are a part of record. A few documents and information were required to be supplied by the managements of LIC and GICI which have not been made available to the members of PAC. Had the same been received it would have helped in examining the implications of the said Bills from various angles.

As the Draft Report dated 22nd February 2002 had been circulated and has been considered for adoption on 26th February 2002 attention was drawn by me to several aspects of the bills which need to be look into. I had put on record my serious objections to both the bills before it was adopted. As stated in the said meeting a Note of Dissent is being submitted in the following paragraphs.

It may please be noted that the Report already adopted may please be reconsidered in the light of the facts that have come on record as the same will have far reaching and disastrous consequences for Insurance Industry in the Public Sector. The Brokers and Corporate Agents, who will be a law unto themselves and shall be answerable to none will ultimately ruin the nationalized insurance Sector which had been making tremendous contribution to the Indian Economy and serving the Social Sector immensely. With these observations I am putting my view points below on the said two bills.

1. The subsidiaries of GICI namely (i) National Insurance Company Ltd. (ii) The New India Assurance Company Ltd. (iii) The Oriental Insurance Company Ltd. And (iv) United India Insurance Company Ltd now being looked after by **GENERAL INSURERS' (PUBLIC SECTOR) ASSOCIATION OF INDIA (GIPSA)** as also the LIC management who appeared before the committee and deposed expressed apprehensions about the inherent dangers arising out of use of brokers and corporate agents in the Insurance Sector. These submissions should have been seriously considered and we should have waited for the information that was to be furnished by them on the subject as promised by them.

2. The representatives of the Employees' Unions submitted the memorandum and placed their submissions on record about the unethical practices indulged in by brokers. This should have been kept in view. They referred to the findings of report of Insurance Company Insolvencies captioned FAILED PROMISES presided by John D Dingell in USA. All India Insurance Employees' Association in the course of submissions placed a copy of the same on record and explained their view points about the dangers of using brokers which is similar to Managing General Agents for procuring business. Such practice has led to the bankruptcies, frauds and scandals in even developed countries like America.

The Draft Regulation in respect of intermediaries including Brokers, Corporate Agents etc. had been circulated by IRDA (Put on website) and subsequently withdrawn. LIC Chairman promised to the Committee in the course of his deposition to provide a copy of the same. It would have helped to understand the inherent dangers had this Committee gone through the Draft Regulation.

3. During the course of the meeting on 26th February 2002 attention of the Committee was drawn to the Recommendation of a Report of Committee on Public Undertaking (COPU) dated 28th August 2001 which have been placed on record. No mention has been made in the PAC Report about the recommendations of the COPU on the same issues. It is emphasized that COPU gave the unanimous recommendation as under.

“The Committee has been informed that the IRDA is in the process finalizing regulations for entry of brokers in the Indian Insurance Market and they will be paid commissions upto 17.5 % for the business procured by them. The Committee note that the non-life Insurance Companies are already working with the high management expenses. They, therefore, feel that the additional burden on the brokerage will compel the non-life Insurance Companies to raise the premium rates in order to absorb the additional costs. They are also of the view that the introduction of the brokers at this state will also affect the agents systems, which is so vital to the growth and penetration of Insurance business in the country.”

4. Vide memorandum submitted by the All India Insurance Employees' Associations on November 12, 2001 and their oral submissions they drew the attention of the Committee and had pointed out that the unanimous recommendations of COPU on the subject were against use of brokers. This should have been taken note of. The management of GIPSA is on record to have proposed VRS in view of the so called redundancy of staff from Administrative and Marketing side in view of the proposed move for introduction of Regulations relating to Brokers or Corporate Agents.
5. Reportedly, GIPSA during its discussions with the Unions in the General Insurance Sector belonging to Class – I, Class – II, Class – II & IV made written proposals by GIPSA which states that ***in the wake of liberalization of insurance Industry, it was decided at the Governing Board of GIPSA that measures need to be taken to restructure and re-engineer our Organisational Structure to succeed in the competitive environment. It was further emphasized by GIPSA that the cost would go up because of the fall in the rate of growth of premium due to entry of new players in the market.*** It is emphasized that the representatives of AIIEA quoted GIPSA's proposals which stated amongst other things as under:

“With the introduction of Regulations relating to Brokers and Corporate Agents, the market is likely to be intermediary-driven. In such a scenario, the cost of business procurement itself will range between 15% - 17.5% as against the current levels of outgo between 2 and 2.5% on this account.”

This clearly shows that the cost of procuring business which is in the range of 2 to 2.5% would get increased to around 17.5%. This has been dealt with by the Committee On Public Undertakings which has gone into the subject and have opined against the use of the Brokers and Corporate agents. The GIPSA is stated to have emphasized that the cost of procurement shall lead to escalation due to change in statute relating to intermediaries. This aspect should have gone into. The reference of the Note circulated by GIPSA and quoted by All India Insurance Employees' Association clearly states that the market henceforth will be driven by the intermediaries viz. Corporate Agents, Brokers etc. and the role of Development Officers would have to be redefined. GIPSA has been quoted stating as under:

The Public Sector General Insurance Companies may have to avail/utilize the new marketing force likely to emerge viz. Intermediaries who will secure licenses to operate during the course of this year.

Commission payments to the new intermediaries namely Corporate Agents and Brokers and enhanced Commission to the Agents will dramatically increased the management cost to the companies.

It is pointed out that COPU & GIPSA have emphasized that the cost of procuring business shall considerably escalate due to change in the statute relating to intermediaries. This aspect was required to be gone into and may please be re-examined by the Committee.

6. There is a widespread and justified apprehension that commission payments to the new intermediaries, mainly Corporate Agents and Brokers, will dramatically increase the management cost. GIPSA has proposed reduction of 30% of the administrative staff higher percentage of marketing staff to save administrative cost while placing on record an appreciation of their services which reads.

“The in-house marketing cadre of Development Officers in the nationalised General Insurance Companies has served the industry admirably. However, in the wake of liberalization of the market which henceforth will be driven by the intermediaries viz Agents, Corporate Agents and Brokers, the role of Development Officers has to be redefined.”

These aspects should have been seriously gone into as there is likelihood of the destabilization of public sector General Insurance in a big way and making the existing employees belonging to different categories redundant even though the services rendered by them have been appreciated by GIPSA and also by the Finance Minister during the discussions on IRDA Bill (1997)

The 15th Standing Committee on Finance which examined the Representatives of the Government, Corporate Houses, the Managements of the Insurance Industry and the Trade Unions are on record have stated in Para 62 at Page 28:

“The Committee notes that lakhs of agents are working at present in the Life and General Insurance Companies and large sums have been invested by such companies for their training and development. It has been apprehended that once the sector is opened up the new companies may take the trained agents alongwith their clients to the detriment of both LIC and GIC. The Committee therefore recommended that tied agency system should be brought in by the IRA in the industry so that an agent is not permitted to operate in more than one company.”

It is confirmed that the Standing Committee on Finance recommended Tied Agency System and also recommended that an agent be not permitted to operate for more than one company. It may be appreciated if the brokers and Corporate Agents are brought in as proposed they will be free to book business on behalf of different insurers and may shift from one to the other along with their clientele. This aspect requires to be examined.

The Draft Regulation on Brokers circulated by IRDA which was subsequently withdrawn, if made available, would have enabled the Committee to study its implications and could have helped to make appropriate suggestions. If the Brokers/Intermediaries for procuring Insurance business will have the power to collect premiums, issue documents and settle claims besides providing Insurance consultancy service, it will lead to fraudulent practices of the pre-nationalized days. There is no safeguard against all these in the Report. If the Brokers and Corporate Agents maintain their own bank accounts and are authorized it to deduct its commission and service charges, it will be disastrous for the nationalized sector which will be weakened. Such practices are similar to the system of Managing General Agents (MGAs) prevalent in the Insurance Industry in USA which is reported to have resulted in bankruptcies and scandals in that country.

8. The 5th Standing Committee on Finance examined Shri R.N.Malhotra, Former Governor of RBI & Chairman Committee on Reforms in Insurance Sector who had submitted a note dated 17 January, 1997, which has been referred it by the Standing Committee in its report on page 67 to 71. On the basis of depositions of Shri Malhotra, The Committee came to the following conclusions:

“Filthy the Committee did not recommend establishment of Managing General Agents and has proceeded on the assumption that Insurance Companies would develop their own sales force and be themselves responsible for underwriting and that they would receive payment of premia before providing insurance covers. It is possible that as the markets develops some Insurance Companies might like to appoint Corporate Agents (i.e Banks) to perform some agency functions. If and when such question comes up, the agency functions would have to be tightly defined so that crucial function like under-writing claim settlement and reinsurance remain with the Insurance Company.”

Refer page 70-71 of the report.

It is emphasized that these aspects were already gone into by the Standing Committee on Finance in its 5th and 15th report and there is no justification to allow use of Brokers and Corporate Agents by paying them commission rates in the range of 17.5% as is being contemplated as the same would lead to destabilization of public sector insurance and redundancy of workforce in a big way. This is contrary to the assurances given by the Hon'ble Finance Ministry on the floor of the House during the course of the discussions on IRDA Bill, when he had stated,

“There is no question of retrenchment of any staff from these public sector Insurance Companies namely, LIC, GIC and its subsidiaries. Let me assure the house that all further measures which are necessary in this direction will also be taken by the Government in due course to make these organizations strong.”

With these few words I oppose legislative measures and submit my Note Dissent in the matter of allowing use of Brokers and Corporate Agents as intermediaries in the Insurance Sector.

It is emphasized that the objects and reasons contained in the IRDA Bill were totally silent on the subject. It seems to be an afterthought or this had been kept hidden at that time.

It is also pointed out that there is enough evidence that shows that there are bungling and swindling by the co-operative banks. They have been in news for quite some time in the recent past. The same may please be kept in view and the matter may be examined in greater detail. It is suggested that nothing should be done in a hurry in view of the pitfalls and hazards involved. It involves use and misuse of huge amounts of public money.

It may be appreciated that regulators failed to check the scandals, frauds, price rigging by the brokers in the share market and the funds with the Insurance.

Companies are long-term savings for which unscrupulous elements would be tempted to misuse or misappropriate which may remain unnoticed for a long time. Mr. John D Dingell has made elaborate submissions in its report relating to Insurance Companies insolvencies.

It is requested that while taking this Note of Dissent on record the matter may be re-examined in view of the pitfalls and intricacies involved.

Sd -
(PRABODH PANDA)

Sd-
(RUPCHAND PAL)

MINUTES OF THE TWENTY NINTH SITTING OF STANDING COMMITTEE ON FINANCE-2001

The Committee sat on Monday, 12th November, 2001 from 1220 hrs to 1345 hrs and thereafter from 1500 hrs to 1630 hrs.

PRESENT

Shri. Shivraj V. Patil – Chairman

LOK SABHA

1. Shri Raashid Alvi
2. Shri Prabodh Panda
3. Shri Ratan Lal Kataria
4. Shri Rupchand Pal
5. Dr. Sanjay Paswan
6. Shri Varkala Radhakrishnan
7. Shri Pravin Rashtrapal
8. Shri Ram Singh Rathwa
9. Shri S. Jaipal Reddy
10. Shri C.N. Singh
11. Shri Kirit Somaiya
12. Shri Kharabela Swain

RAJYA SABHA

13. Shri S.S. Ahluwalia
14. Shri Suresh A. Keshwani
15. Shri Solipeta Ramachandra Reddy

SECRETARIAT

1. Shri P.D.T Achary, Addl. Secretary
2. Dr. (Smt) P.K. Sandhu, Joint Secretary
3. Shri R..K. Jain, Deputy Secretary,
4. Shri S.B. Arora, Under Secretary

WITNESSES

Confederation of Indian Industry (CII)

1. Shri Subodh Bhargava, Past president CII and Adviser
2. Shri Deepak Satwalekar, Managing Director, HDFC Standard Life Ins Co. Ltd.
3. Shri Stuart Purdy, CEO, Dabur CGU Life Insurance
4. Shri Mohit Burman, General Manager, Dabur India Limited
5. Shri Goerge Oommen, CEO, Tata – AIG Insurance Company

Punjab, Haryana and Delhi Chamber of Commerce and Industry (PHDCCI)

1. Mr. C.K. Hazari, Past President PHDCCI
2. Mr. Shambu Anand, Chairman, Study Group on Insurance, PHDCCI
3. Mr. Ramesh Kapoor, Member, Study Group on Insurance
4. Mr. T.G. Keswani, Consultant, PHDCCI
5. Mr. B.J. Thapar, Consultant, PHDCCI

Life Insurance Agents' Federation of India, Vishakapatnam

1. Shri H.M. Jain - President
2. Shri N. Gajapathi Rao - Secretary General
3. Shri Premsinghal
4. Shri Ranavir Sharma
5. Shri Sanjay Prasad

All India Insurance Employees' Association, Chennai

1. Shri R.P. Manchanda - President
2. Shri N.M. Sundaram - General Secretary
3. Shri R. Santhanam - Secretary Standing Committee
4. Shri J. Gurumurthy - Joint Secretary

General Insurance Employees' All India Association, Mumbai

1. Shri M.S. Upadhyay - General Secretary
2. Shri Ummed Singh - Vice President
3. Shri Upadhay - Joint Secretary

National Federation of Insurance Field Workers of India, Lucknow

1. Shri Jay Prakash - President
2. Shri Anand Tyagi - Secretary General

2. At the outset, the Chairman welcomed the representatives of the Confederation of Indian Industry (CII) and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker. The CII then gave a presentation and expressed their views on the Insurance (Amendment) Bill, 2001.

The witnesses then withdrew.

3. Since the Hon'ble Chairman had some other important engagement, he left the sitting at about 1300 hours for a shortwhile. The Committee then chose Sh. Rupchand Pal to act as chairman under Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

4. Thereafter the acting Chairman welcomed the representatives of the PHD Chamber of Commerce and Industry and before taking their evidence invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker. The PHD Chamber of Commerce and Industry expressed their views on the Insurance (Amendment) Bill, 2001 and replied to the queries raised by the Members.

The witnesses then withdrew

5. Due to paucity of time, the Committee decided to postpone the oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs – Insurance Division), Insurance Regulatory and Development Authority (IRDA), Life Insurance Corporation, General Insurance Corporation and its four subsidiaries.

The Committee then adjourned for lunch to meet again at 1500 hrs

6. Thereafter, the Chairman welcomed the representatives of the Life Insurance Agents Federation of India, Vishakapatnam and invited their attention to Direction 55 of the Direction by the Speaker. The representatives then placed their viewpoints on the Insurance (Amendment) Bill, 2001 and replied to the queries raised by the Members.

The witnesses then withdrew

7. The Chairman then welcomed the representatives of the National Federation of Insurance Field Workers of India and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker. The representatives of the Association expressed their views on the Insurance (Amendment) Bill, 2001.

The witnesses then withdrew

8. The Chairman then welcomed the representatives of All India Insurance Employees' Association, Chennai and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker. The representatives of the Association expressed their views on the Insurance

(Amendment) Bill, 2001 and the General Insurance Business (Nationalisation) Amendment Bill, 2001. They also replied to the questions/queries raised by the Members.

The witnesses then withdrew

9. The Chairman then welcomed the representatives of the General Insurance Employees' All India Association, Mumbai and invited their attention to Direction 55 of the Directions by the Speaker. The representatives expressed their views on the provisions contained in the General Insurance Business (Nationalisation) Amendment Bill, 2001.

The witnesses then withdrew

10. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE SECOND SITTING OF STANDING COMMITTEE ON FINANCE-2002

The Committee sat on Wednesday, 25 January, 2002 from 1100 to 1300 hours.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Dr. Sanjay Paswan
3. Shri Rattan Lal Kataria
4. Shri Kirit Somaiya
5. Shri Kharabela Swain
6. Shri Raj Narain Passi
7. Shri S. Jaipal Reddy
8. Shri Ramesh Chennithala
9. Shri N.D.Tiwari
10. Shri Sudarsana E.M. Natchiappan
11. Shri Rupchand Pal
12. Shri Varkala Radhakrishnan
13. Dr. Daggubati Ramanaidu
14. Shri Chada Suresh Reddy
15. Shri T.M.Selvaganapathi
16. Shri Trilochan Kanungo
17. Capt. Jai Narain Prasad Nishad
18. Shri Prabodh Panda
19. Shri M.V.V.S. Murthy

RAJYA SABHA

20. Dr. Manmohan Singh
21. Shri N.K. P. Salve
22. Shri Dina Nath Mishra
23. Prof. M. Sankaralingam
24. Shri Prem Chand Gupta
25. Shri Sanjay Nirupam
26. Shri Daya Nand Sahay

SECRETARIAT

- | | | |
|---------------------------|---|------------------|
| 1. Dr. (Smt.) P.K. Sandhu | - | Joint Secretary |
| 2. Shri R.K. Jain | - | Deputy Secretary |
| 3. Shri S.B. Arora | - | Under Secretary |

WITNESSES

Life Insurance Corporation of India -

- | | | |
|-----------------------|---|-------------------|
| 1. Shri G.N. Bajpai | - | Chairman |
| 2. Shri A. Ramamurthy | - | Managing Director |
| 3. Shri N.C. Sharma | - | Managing Director |

2. At the outset the Chairman welcomed the representatives of Life Insurance Corporation (LIC) to sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. Thereafter, the Chairman requested the Chairman, LIC to introduce his colleagues to the Committee.

4. Then the Chairman, LIC presented the views of LIC on the provisions contained in the Insurance (Amendment) Bill, 2001.

5. Thereafter, the Chairman asked the Chairman of LIC to furnish written replies/notes on the points/queries raised by the Members subsequent to the presentation which could not be replied to during the meeting.

6. Due to paucity of time the Committee decided to postpone the oral evidence of representatives of General Insurance Corporation of India (GIC) Ltd. and its four subsidiaries to 4th February, 2002.

7. A verbatim record of proceedings was kept.

8. The witnesses then withdrew.

9. The Committee then decided to meet again on **4 February, 2002** to take oral evidence of representatives of (i) GIC and its four subsidiaries - (a) Oriental Insurance Company Limited, (b) New India Assurance Company Limited, (c) National Insurance Company Limited and (d) United India Insurance Company Limited, (ii) Ministry of Finance; and (iii) Insurance Regulatory and Development Authority (IRDA) on the General Insurance Business (Nationalisation) Amendment Bill, 2001 and the Insurance (Amendment) Bill, 2001.

The Committee then adjourned.

MINUTES OF THE THIRD SITTING OF STANDING COMMITTEE ON FINANCE-2002

The Committee sat on Monday, 4 February, 2002 from 1100 to 1300 hours and again from 1500 to 1700 hours.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Dr. Sanjay Paswan
3. Shri Rattan Lal Kataria
4. Shri Kirit Somaiya
5. Shri Kharabela Swain
6. Shri Raj Narain Passi
7. Shri Ramesh Chennithala
8. Shri Rupchand Pal
9. Shri Varkala Radhakrishnan
10. Shri Chada Suresh Reddy
11. Shri T.M.Selvaganapathi
12. Shri Sudip Bandyopadhyay
13. Shri Abdul Rashid Shaheen
14. Capt. Jai Narain Prasad Nishad
15. Shri Prabodh Panda
16. Shri M.V.V.S. Murthy

RAJYA SABHA

17. Dr. Manmohan Singh
18. Shri Suresh A. Keshwani
19. Shri S.S. Ahluwalia
20. Shri Dina Nath Mishra
21. Dr. Biplab Dasgupta
22. Prof. M. Sankaralingam
23. Shri Daya Nand Sahay
24. Shri Palden Tsering Gyamtso

SECRETARIAT

- | | | | |
|----|------------------------|---|----------------------|
| 1. | Shri P.D.T. Achary | - | Additional Secretary |
| 2. | Dr. (Smt.) P.K. Sandhu | - | Joint Secretary |
| 3. | Shri R.K. Jain | - | Deputy Secretary |
| 4. | Shri S.B. Arora | - | Under Secretary |

WITNESSES

Part I (1100 to 1300 hours)

1. General Insurance Corporation of India
Shri D. Sengupta, Chairman

2. New India Assurance Co. Ltd.
Shri K.N. Bhandari, CMD
3. National Insurance Company Ltd.
Shri P.C. Ghosh, CMD (Additional Charge)
4. United India Insurance Company Ltd
Shri V. Jagannathan, CMD
5. Oriental Insurance Company Limited
Shri Ajit M. Sharan, Current In-charge of CMD

Part II (1500 to 1700 hours)

1. Ministry of Finance

- (i) Shri C.M. Vasudev, Secretary, Deptt. of Economic Affairs
- (ii) Shri S.K. Purkayastha, Additional Secretary - Financial Sector
- (iii) Shri Ajit M. Sharan, Joint Secretary – Insurance

2. Insurance Regulatory And Development Authority (IRDA)

Shri N. I. Rangachari, Chairman

Part I

2. At the outset, the Chairman welcomed the representatives of General Insurance Corporation, New India Assurance Co. Ltd., National Insurance Company Ltd., United India Insurance Company Ltd. and Oriental Insurance Company Ltd and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. Thereafter, the Chairman, requested the Chairman, GIC to introduce his colleagues to the Committee.

4. Then the CMD, New India Assurance Co. Ltd. presented his views on the growth of General Insurance Industry.

5. Thereafter, the Chairman asked the Chairman of GIC to furnish a detailed note on National Agricultural Insurance Scheme alongwith the replies to the points/ queries raised by the Members during the presentation which could not be replied to during the meeting.

6. A verbatim record of the proceedings was kept.

7. The evidence of the General Insurance Corporation, New India Assurance Co. Ltd., National Insurance Company Ltd., United India Insurance Company Ltd. and Oriental Insurance Company Ltd was concluded ,

8. The witnesses then withdrew.

9. The Committee then adjourned to meet again at 1500 hours to take oral evidence of the Ministry of Finance and IRDA on the Insurance (Amendment) Bill, 2001 and the General Insurance Business (Nationalisation) Amendment Bill, 2001.

Part - II

2. At the outset, the Chairman welcomed the representatives of Ministry of Finance (Department of Economic Affairs) and Insurance Regulatory and Development Authority (IRDA) and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. Thereafter, the Chairman requested the Secretary, Ministry of Finance to introduce his colleagues to the Committee.

4. The Ministry of Finance and IRDA then presented their view points on the above bills and replied to the queries raised by the Chairman and the Members.

5. Later the Chairman asked the representatives of Ministry of Finance to furnish written replies / notes on the points/ queries raised by the Members, which could not be replied to during the meeting.

6. A verbatim record of the proceedings was kept.

7. The evidence was concluded.

8. The witnesses then withdrew.

The Committee then adjourned

MINUTES OF THE FOURTH SITTING OF STANDING COMMITTEE ON FINANCE- 2002

The Committee sat on Tuesday, 26 February, 2002 from 1330 hours to 1645 hours.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Dr. Sanjay Paswan
3. Shri Sudarsana E.M. Natchiappan
4. Shri Rupchand Pal
5. Shri Varkala Radhakrishnan
6. Dr. Daggubati Ramanaidu
7. Shri T.M.Selvaganapathi
8. Shri Trilochan Kanungo
9. Shri Sudip Bandyopadhyay
10. Shri Prabodh Panda
11. Shri M.V.V.S. Murthy

RAJYA SABHA

12. Shri Krishna Kumar Birla
13. Shri Parmeshwar Kumar Agarwalla
14. Prof. M. Sankaralingam
15. Shri Prem Chand Gupta
16. Shri Sanjay Nirupam
17. Shri Daya Nand Sahay
18. Shri Palden Tsering Gyamtso

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu - Joint Secretary
2. Shri R.K. Jain - Deputy Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee and informed them regarding the desire of the eight member delegation of the Standing Committee of the German Federal Parliament on Economic Co-operation and Development to call on the Members of the Standing Committee on Finance during their proposed visit to India from 4 to 9 April, 2002. The Committee then decided to meet the German Parliamentary delegation on 5 April, 2002.

3. After assessing the positive outcome of their earlier study tour from 7 to 14 January, 2002 to the States of Maharashtra, Andhra Pradesh and Tamil

Nadu, the Committee decided to undertake week-end study tour to Chandigarh and Patiala en route Karnal and Ambala on 16 and 17 March, 2002.

4. Then, the Committee expressed their concern over the reported leakage of the findings of the draft reports on the (i) General Insurance Business (Nationalisation) Amendment Bill, 2001 and (ii) The Insurance (Amendment) Bill, 2001 to the Press. The Chairman, in this connection, requested the Members to be vigilant and directed the Secretariat to be cautious henceforth to avoid such occurrences.

5. The Committee, thereafter, took up for consideration the draft reports on the (i) General Insurance Business (Nationalisation) Amendment Bill, 2001; and (ii) The Insurance (Amendment) Bill, 2001. The Committee after deliberations adopted the draft report on the General Insurance Business (Nationalisation) Amendment Bill, 2001 without any modifications / amendments. The Committee then considered the draft report on the Insurance (Amendment) Bill, 2001 and adopted the same with the following modification :

Page no. 6, Para no. 9, Line 8

For "proper"

Substitute "specific"

6. As some Members did not agree to some of the recommendations contained in the draft reports, they desired to submit notes of dissent for incorporation in the reports. The Chairman informed them that they could send their notes of dissent by 1 March, 2002.

7. The Committee, thereafter, authorised the Chairman to finalise the reports in the light of above amendment and also to make consequential verbal changes and present the same to the Parliament.

The Committee then adjourned